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Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

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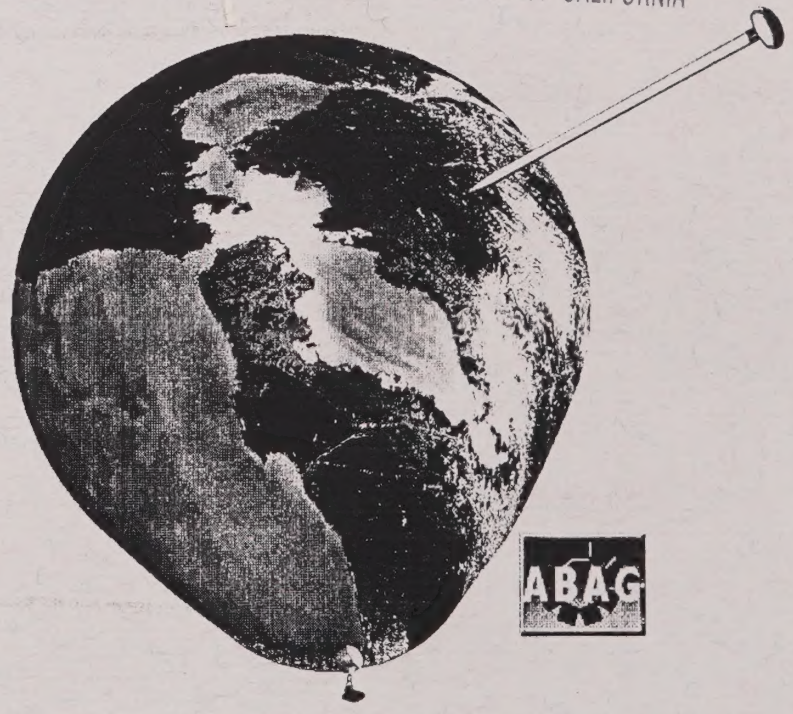

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AN ECONOMIC CONFERENCE: ASSOCIATION OF BAY AREA GOVERNMENTS

WILL THE BUBBLE BURST?

Regional Economic Outlook: 1999 & 2000

Friday, January 29, 1999
8:30 a.m. - 12:00 noon
Auditorium
Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, California

8:30 a.m.	**Registration and Coffee**	
9:00 a.m.	**Welcome and Overview**	**Eugene Leong** Executive Director Association of Bay Area Governments
9:10 a.m.	**California's Outlook: Soft Landing Ahead?** • Asia: Is the Worse Over? • High Tech: Don't Forget Services • Construction: Looking Good	**Ted Gibson** Chief Economist California Department of Finance
9:50 a.m.	**What Risks Does the Bay Area Face?** • What Areas Can Expect Growth? • What Sort of Jobs Can We Expect? • What Factors Control Growth?	**Paul Fassinger** Research Director Association of Bay Area Governments
10:30 a.m.	**Break**	
10:45 a.m.	**Business Climate: Still Hot?** • Taxable Sales Forecast • Recent Commercial Construction Activity	**Brian Kirking** Senior Regional Planner Association of Bay Area Governments
11:20 a.m.	**Where in the Cycle is the Housing Market?** • Asian Crisis and Economy • Housing Shortage Looming	**Gerd-Ulf Krueger** Deputy Chief Economist California Association of Realtors
11:45 a.m.	**Questions and Answers**	

ABAG Publication Number: P99005PRO

Biographical Information

Paul Fassinger is the Research Director at the Association of Bay Area Governments. A position he has held since 1995. He is ABAG's chief economist and oversees a variety of economic and demographic research into issues like commuting, labor force participation, life expectancy, and regional economic interactions. He is the primary author of ***Projections 98***, a comprehensive and long-term forecast of growth for the Bay Area. He also makes an annual short-term forecast for the Bay Area's economy.

Prior to joining ABAG, Dr. Fassinger worked as an economic consultant. For a number of years he was also on the staff of the California Public Utilities Commission, where his work focused on energy regulation.

Dr. Fassinger holds M.S. and Ph.D. degrees from Cornell University. He received his B.A. from the University of California at Berkeley.

Ted D. Gibson is Chief Economist for the California Department of Finance, where he analyzes and forecasts the U.S. and California economies as part of the State's budget process. In addition, Mr. Gibson advises the Director of Finance on economic issues relating to the budget and produces the annual *Economic Report of the Governor* as well as other Department publications and studies. He joined the Department in 1987.

Previously, Mr. Gibson followed the California economy as Vice President and Senior Economist at Crocker National Bank (1979 to 1984), and as a Vice President and Manager of Security Pacific Bank's Northern California Research Division (1969 to 1975). In the late 1970s, he was the senior US economist at Mellon Bank, Pittsburgh.

A native of Los Angeles, Mr. Gibson received Bachelor's and Master's degrees in Finance and Economics from Arizona State University, Tempe. Ted and his wife Sandra are residents of Sacramento.

Brian Kirking is a key member of ABAG's staff working on economic and demographic forecasting. He is involved in the collection and analysis of data and the creation of mathematical models for forecasting population, households, and employment for the San Francisco Bay Area.

Mr. Kirking also oversees abagOnline, the country's first Web site of a council of governments. He has been with ABAG since September of 1995.

Prior to joining ABAG, Mr. Kirking was Assistant to the Director of Utilities in Camden, New Jersey, and was a Senior Member of the Technical Staff in TRW's Defense Systems Group, where he performed engineering analysis of U.S. strategic weapons systems.

Degrees include Master of City Planning from the University of Pennsylvania and Master of Science in Civil Engineering from the California Institute of Technology.

Gerd-Ulf (G-U) Krueger is the Deputy Chief Economist for the California Association of Realtors (C.A.R.), a statewide trade organization of real estate professionals with nearly 100,000 members.

Mr. Krueger is responsible for compiling and analyzing data on California's housing market and publishes C.A.R.'s monthly newsletter, "California Real Estate TRENDS." He also created the innovative County Economic Profiles for C.A.R.

Mr. Krueger has developed statistical models to forecast housing market trends and C.A.R. membership levels. He also analyzes the various state and federal legislative proposals regarding their potential impacts on the state's economy and housing market.

Before joining C.A.R. in 1990, Mr. Krueger was an economist with a durable goods company in Los Angeles. Prior to this, he worked as a research associate for The Conference Board, a New York private "think tank."

Mr. Krueger earned a Master's degree in economics in 1985 from the New School for Social Research in New York.

California Outlook 1999: Soft Landing Ahead?

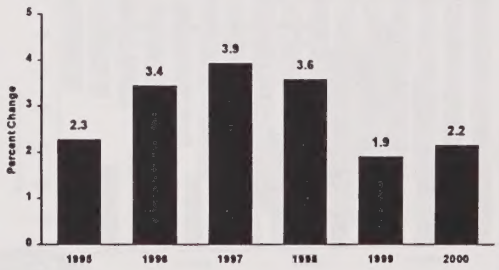
Ted Gibson

Chief Economist

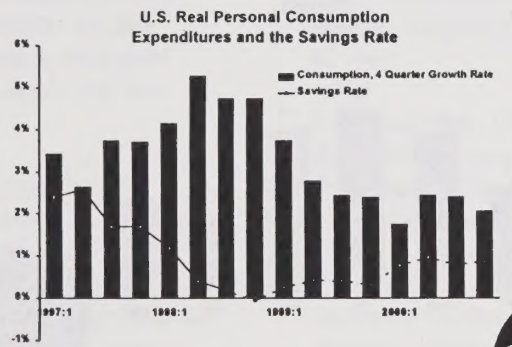
California Department of Finance

When Will the U.S. Economy Slow?

Annual Growth in U.S. Real Gross Domestic Product



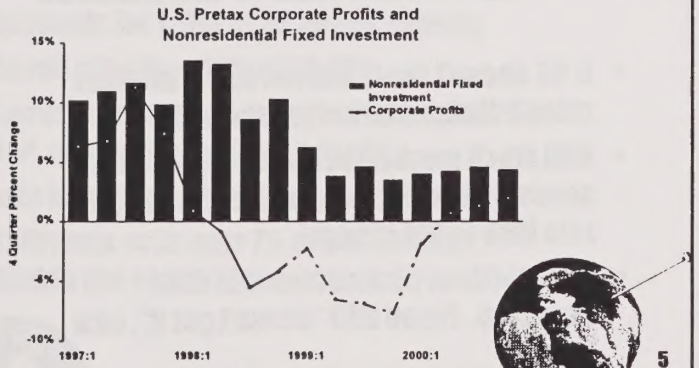
Consumers: Caution to the Wind



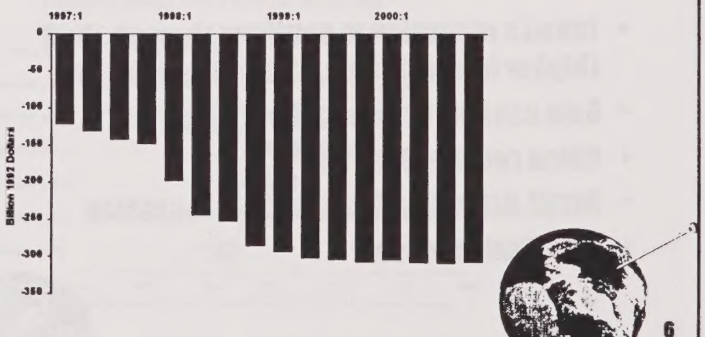
The Stock Market's Role

- Increased wealth makes consumers more confident
- Target savings: can save less as asset values rise (pension contributions down)
- But most market valuation measures exceed levels of 1928-29
- Widely divergent views on 1999 profits

Weaker Profits Will Dampen Business Investment



Trade Deficit Still a Drag



International Situation is Not Improving

- Japan's recession to continue through 1999 (higher interest rates, strong Yen will hurt)
- Asia cannot recover without Japan
- China remains big risk
- Brazil, Argentina, Venezuela in recession
- Will Mexico follow?

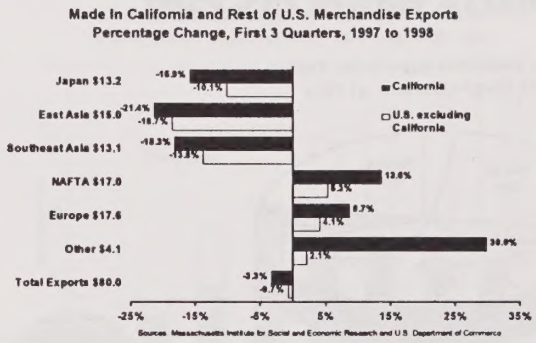
Significant Risk to the Outlook

- If US doesn't slow, will Fed boost interest rates? (Labor market pressures)
- Will stock market investors come to their senses? (Profit disappointments or Fed rate hike could trigger)
- International picture is worse than expected. Japan still "doesn't get it", now Brazil.

California is the Nation's Leading Export State

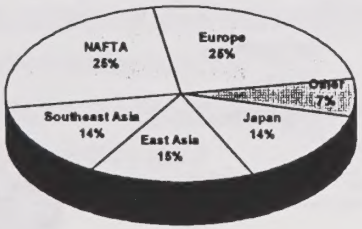
- Accounts for 1/6th of US goods exports
- Goods exports = 10% of CA GSP
- Goods and services exports = at least 15% of GSP, compared to 10 1/2% for US
- Asia is California's largest market
- California sells over 7% of GSP to Asia, double the national proportion

Steep Declines in Exports to Asia Offset by Gains Elsewhere — So Far



Asia Share Falls to 43% from 50%+, NAFTA, Europe 25% Each

Made in California Exports by Region
First Three Quarters of 1998



Source: Massachusetts Institute for Social and Economic Research

11

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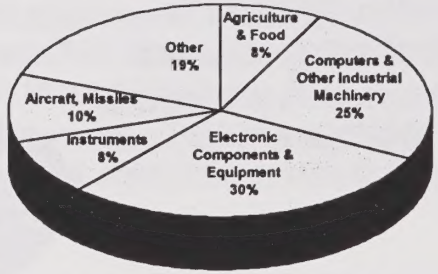
High-tech Equipment Dominates California Exports

Made in California Exports
First Three Quarters of 1998
Commodity Shares



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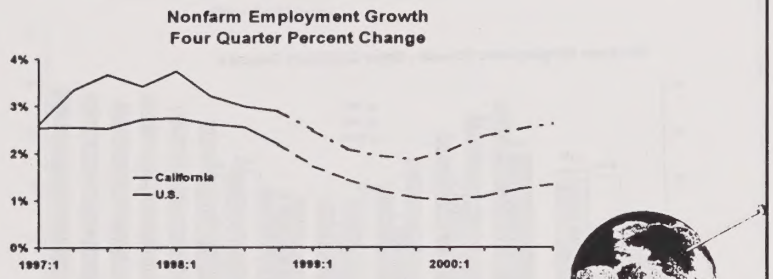
California Job Growth is Slowing, but Still Outpacing Nation



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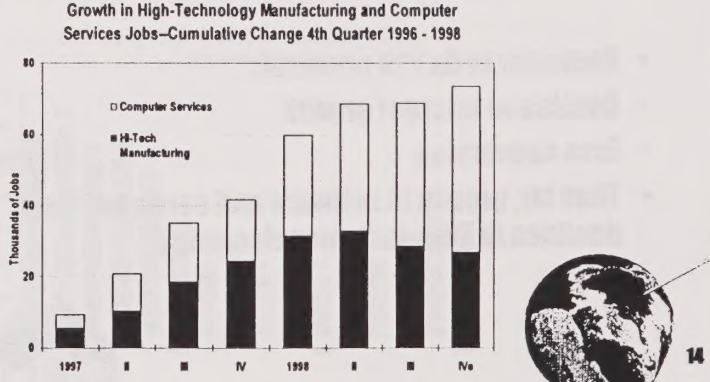
Growth in Computer Services Offsets Manufacturing Weakness



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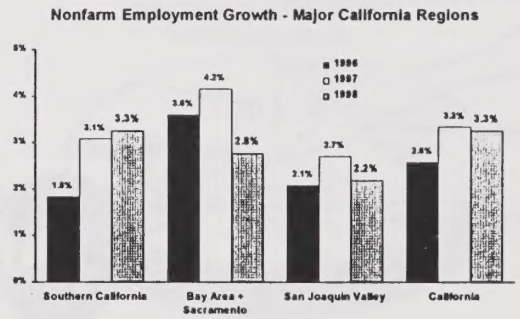
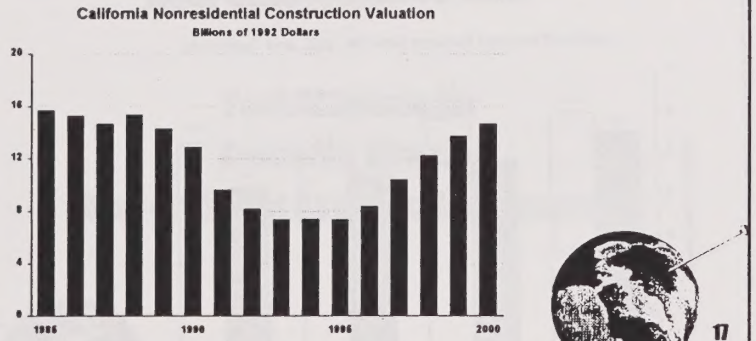
Computer Services Remain Strong

- Demands to fix Y2K problems
- Continued Internet growth
- Euro conversion
- Thus far, growth in software and services offset declines in high-tech manufacturing.

Bay Area Slowdown More Pronounced Than in Other Areas



Strong Recovery in Nonresidential Construction — Near Late 80s Peak



17

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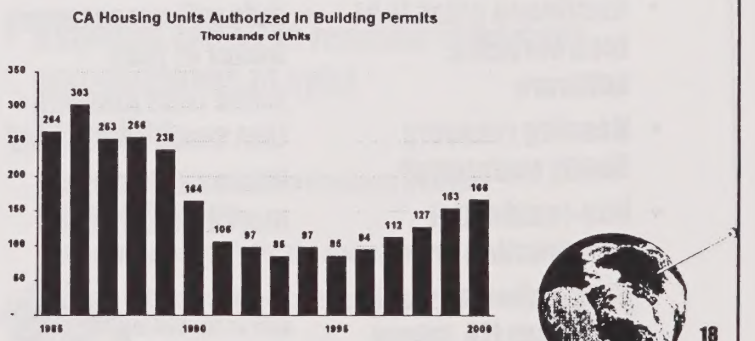
Modest Homebuilding Recovery, but Well Below Historical Norm



18

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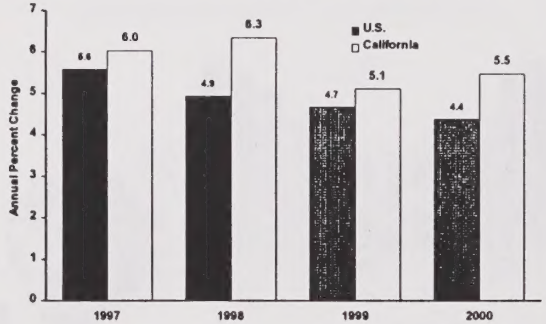
Pluses and Minuses

- Continued gains in hi-tech services, software
- Housing recovery finally underway?
- Non-residential construction growing
- Slack labor market in key areas (LA, Inland Empire, Central Valley)
- Asia will not get much better in 1999
- Weak Latin America (but small CA market)
- When will the stock market lottery end?

Bottom Line: Slower Growth, with Considerable Risk

Annual Personal Income Growth, U.S. and California



Will the Bubble Burst?

Paul W. Fassinger
Research Director
Association of Bay Area Governments

Is the Bay Area Unique?

- Destiny controlled by external factors
- Regional variation remains important and continues to exist
- Examples:
  - Christmas caroling called off because it was it had reached freezing
  - SF Symphony to play with Metallica
  - US Web CEO thinks chips and fiber optics were copied from UFO space ship

23

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

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Economic Outlook

- While the economy will grow in 1999 trouble is looming in 2000
- Negative factors will continue with few new positives (mergers, general slowdown)
- Consumer confidence is holding the economy together and is vulnerable to changes in the jobs picture and stock market

24

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

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California Job Growth

	1996	1997	1998*	Percentage Change		
Farming	408,300	429,000	403,833	9%	5%	-6%
Mining	29,200	29,400	28,517	-3%	1%	-3%
Construction	505,900	554,300	605,275	4%	10%	9%
Manufacturing	1,851,800	1,913,800	1,942,317	3%	3%	1%
High Tech Manufacturing	300,100	311,900	312,533	5%	4%	0%
Transportation	413,900	428,100	444,325	3%	3%	4%
Communications & Utilities	228,000	234,400	236,042	-1%	3%	1%
Wholesale Trade	744,000	774,900	800,750	3%	4%	3%
Retail Trade	2,230,000	2,282,500	2,328,517	2%	2%	2%
FIRE	736,700	755,700	780,992	1%	3%	3%
Services	3,890,700	4,050,800	4,233,425	4%	4%	5%
Business Services	975,100	1,050,900	1,135,975	10%	8%	8%
Government	2,113,300	2,143,600	2,184,700	0%	1%	2%
TOTAL	13,151,700	13,596,400	13,988,692			
Growth Rate	2.8%	3.4%	2.9%			

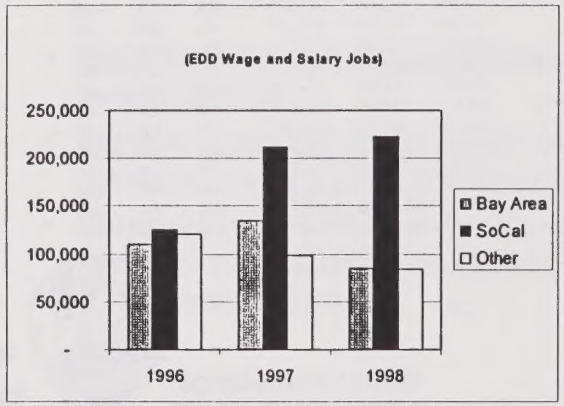
Bay Area Job Growth

	1996	1997	1998*			
Farming	22,400	24,100	25,023	6%	8%	4%
Mining	3,900	4,000	3,926	0%	3%	-2%
Construction	127,400	142,800	155,205	10%	12%	9%
Manufacturing	476,500	495,400	499,397	6%	4%	1%
High Tech Manufacturing	212,810	226,720	228,629	9%	7%	1%
Transportation	109,900	114,100	117,934	2%	4%	3%
Communications & Utilities	62,000	65,400	64,725	3%	5%	-1%
Wholesale Trade	167,900	178,100	183,569	3%	6%	3%
Retail Trade	493,700	508,600	515,532	2%	3%	1%
FIRE	195,300	202,900	208,342	1%	4%	3%
Services	974,400	1,030,400	1,070,479	6%	6%	4%
Business Services	291,500	322,300	342,370	13%	11%	6%
Government	435,600	438,200	439,774	-1%	1%	0%
TOTAL	3,068,900	3,203,500	3,289,490			
Growth Rate	3.7%	4.4%	2.7%			

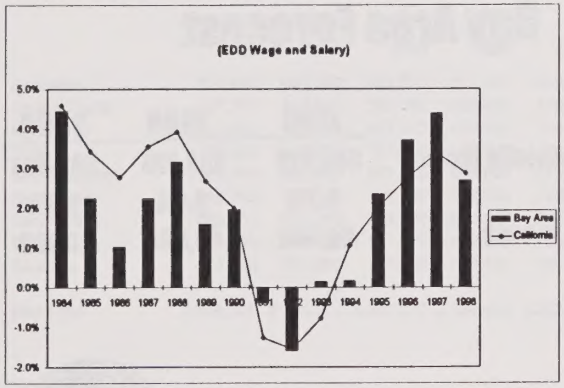
Comparative Job Growth

	1995	1996	1997	1998	Share		
California	12,795,700	13,151,700	13,596,400	13,988,692			
Bay Area	2,958,800	3,068,900	3,203,500	3,289,317	31%	30%	22%
LA	3,754,500	3,795,800	3,879,200	3,979,525	12%	19%	26%
Orange	1,158,000	1,191,100	1,236,200	1,285,717	9%	10%	13%
Riverside	801,700	824,800	865,200	906,017	6%	9%	10%
San Diego	989,300	1,017,200	1,060,100	1,091,742	8%	10%	8%
Sacramento	590,600	608,900	627,700	643,242	5%	4%	4%
Other	2,542,800	2,645,000	2,724,500	2,793,133	29%	18%	17%

Job Growth



Annual Employment Growth



Construction

- Public works can be important
- Since the 1991-93 Recession Bay Area construction jobs up 43% (47,000)
- Public works big part of picture
  - Transportation (airport, roads, BART)
  - Sports complexes (Coliseum, PacBell Park)
  - Public buildings (city halls, state & Federal buildings)
- Federal highway funds continue stimulus

Y2K

- Will cause short term flow of investments into the US as a safe haven
- Individuals will spur economy through emergency supplies (gasoline, food, cash on hand)
- Replacement purchases for old equipment instead of fixing

Bay Area Forecast

	1998	1999	2000
Average household income	$80,378	$84,376	$88,697
Inflation rate	3.2%	3.4%	3.6%
Employment growth	86,000	40,000	20,000

Wage and Salary Jobs by County

	1996	1997	1998	*1999*	*2000*
Alameda	620,800	640,300	656,019	*663,000*	*666,000*
Contra Costa	297,700	312,800	323,456	*327,400*	*330,400*
Marin	102,500	105,200	107,313	*108,600*	*109,300*
Napa	50,900	53,600	55,970	*57,100*	*57,900*
San Francisco	530,100	551,000	562,070	*568,900*	*572,800*
San Mateo	319,200	333,100	339,792	*343,900*	*346,000*
Santa Clara	885,000	933,200	959,900	*970,600*	*974,900*
Solano	99,400	103,400	107,972	*109,800*	*110,400*
Sonoma	163,300	171,000	179,900	*183,100*	*184,800*
Bay Area	3,068,900	3,203,600	3,292,392	*3,332,400*	*3,352,500*

Mean Household Income

	1997	1998	1999	2000
Alameda	$ 66,231	$ 70,171	$ 73,493	$ 77,081
Contra Costa	78,824	83,001	87,099	91,527
Marin	98,899	104,432	109,203	114,356
Napa	66,095	70,049	72,672	75,500
San Francisco	67,752	71,544	75,128	79,003
San Mateo	88,421	93,667	98,442	103,604
Santa Clara	86,031	91,308	95,922	100,909
Solano	60,116	63,085	66,734	70,683
Sonoma	65,151	68,604	72,149	75,983
Bay Area	$ 76,012	$ 80,378	$ 84,376	$ 88,697

Conclusions

- Some threat of recession in 2000
- Slowing underway, particularly in industrialized counties
- Some factors will uniquely influence this region (trade, construction)
- Global factors continue to be a primary driver

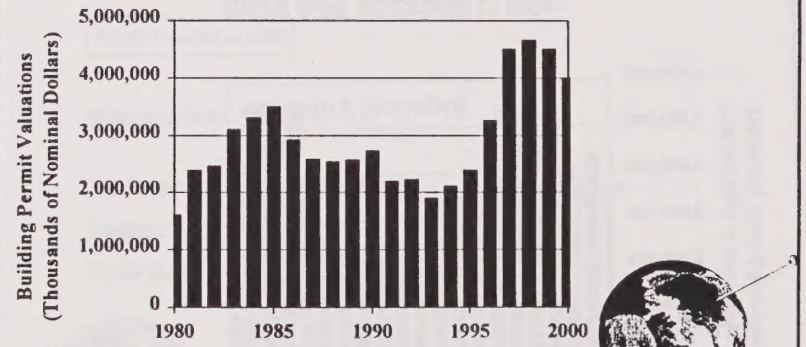
Nonresidential Construction and Taxable Sales

Brian Kirking
Senior Regional Planner
Association of Bay Area Governments

Recent Nonresidential Construction Activity

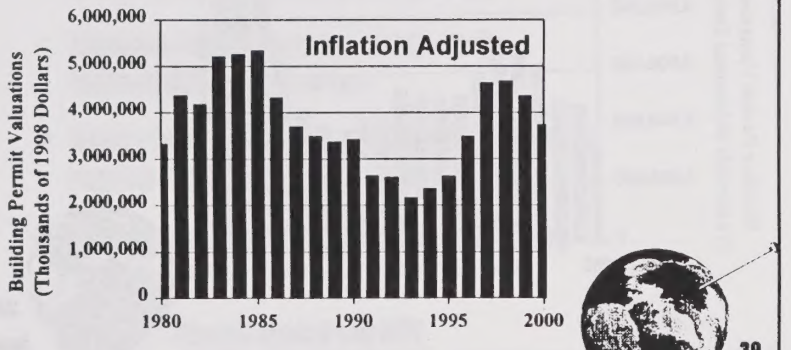
Office • Industrial • Retail/Commercial

Nonresidential Building Permits
San Francisco Bay Area



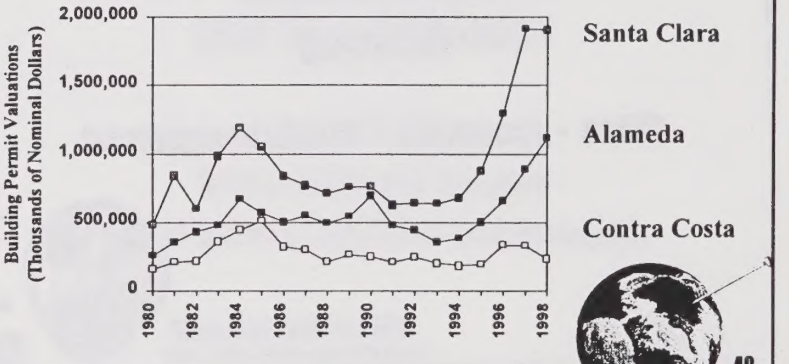
Source: Construction Industry Research Board, ABAG

Nonresidential Building Permits
San Francisco Bay Area



Source: Construction Industry Research Board, ABAG

Nonresidential Building Permits
East Bay & South Bay



Major Projects
East Bay

Permits Issued in 1998

Pleasanton	Industrial	$29M
Dublin	Office	$21M
Emeryville	Movie Studio	$35M
"	Office	$28M
Fremont	Hotel	$26M

Source: Construction Industry Research Board

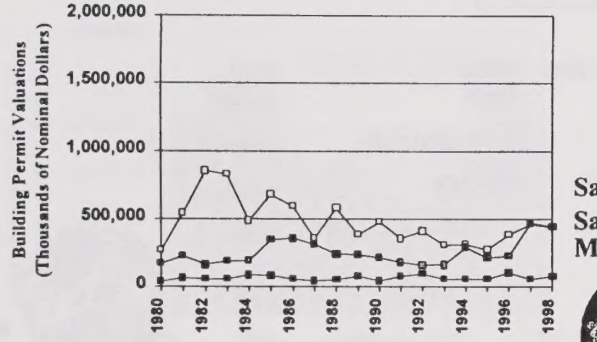
Major Projects
South Bay

Permits Issued in 1998

Mountain View	Office	$21M
"	Office	$28M
San Jose	7 Industrial Parks	$20-49M each
Sunnyvale	Industrial	$50M
Santa Clara	Commercial Alteration	$22M

Source: Construction Industry Research Board

Nonresidential Building Permits
West Bay



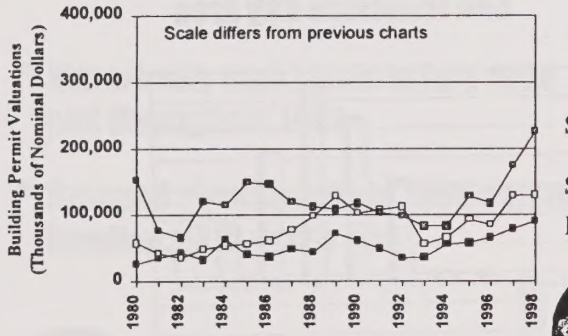
Major Projects
West Bay

Permits Issued in 1998

Foster City	Office	$21M
"	Office	$21M
"	Office	$22M
Redwood City	Office	$21M
San Francisco	Nursing Home	$18M

Source: Construction Industry Research Board

Nonresidential Building Permits
North Bay

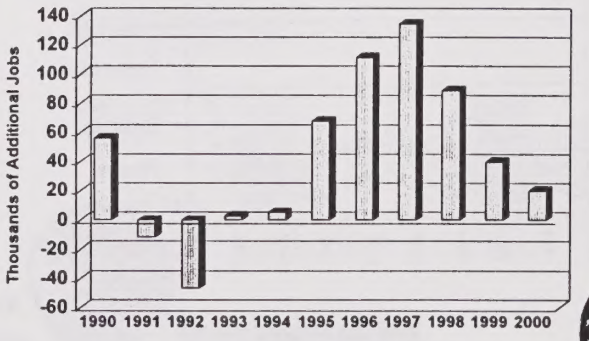


Factors Affecting Taxable Sales

Population and Income
San Francisco Bay Area

- Steady population growth of 1-2% annually for the Region
- Real income up 8% between 1995 and 1997 and another 2.5% in 1998
- Real income growth will slow but remain positive

Employment Growth
San Francisco Bay Area



Source: California EDD, ABAG

Consumer Confidence

- Historically high levels in late 1996 and throughout 1997
- Dropped significantly in 1998 before leveling off at year's end

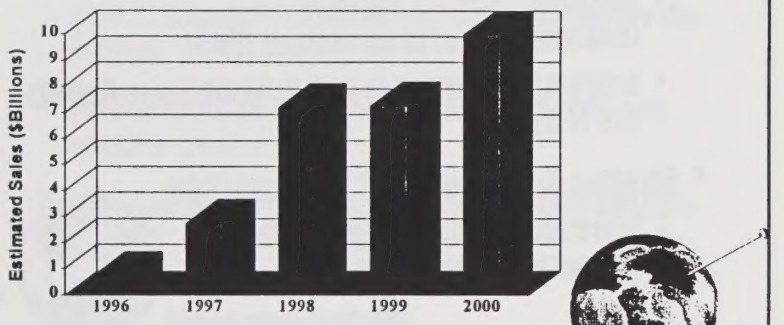
Source: The Conference Board

Housing Costs
San Francisco Bay Area

- Home Sales Prices:
  - Bay Area up 7% on average (December 1997 to December 1998)
  - Largest increases are still in Santa Clara County (up 11.5%)
- Shelter Component of Regional CPI:
  - Increased twice as much as the overall index during 1998

Consumer Sales Over the Internet

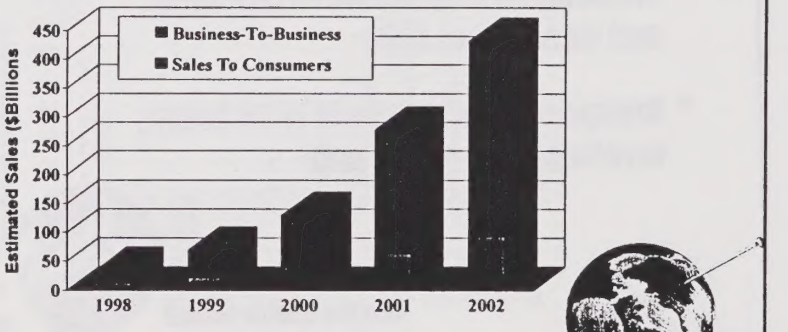
1998 Sales Exceeded Forecast by 47%



Source: Yankee Group, January 1998, updated in January 1999

Total Sales Over the Internet

Consumer Sales Are Only Part of The Story



Source: International Data Corporation, January 1999

Perspective

- Amazon.com 4th-Qtr 1998 Sales:
  $250 Million
- WalMart's U.S. Sales:
  $300 Million PER DAY

Taxable Sales Forecasts

Taxable Sales Growth
San Francisco Bay Area

Nominal Percent Growth

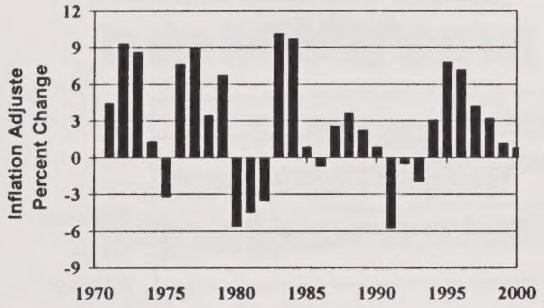
	1996	1997	Estimate 1998	Forecast 1999	Forecast 2000
Retail Stores	8.0	7.5	6.0	4.3	4.0
All Other Outlets (including Services)	11.9	7.8	7.2	5.1	5.0
Total Taxable Sales	9.5	7.6	6.4	4.6	4.4

Taxable Sales Growth
San Francisco Bay Area

Inflation Adjusted

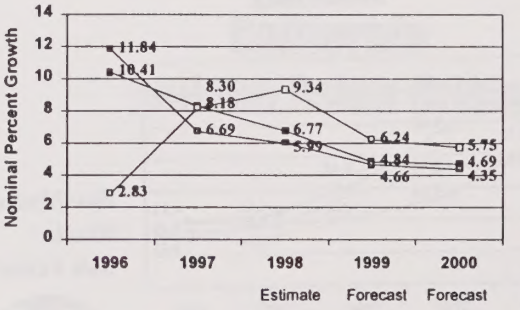
	1996	1997	Estimate 1998	Forecast 1999	Forecast 2000
Retail Stores	5.7	4.1	2.8	0.9	0.4
All Other Outlets (including Services)	9.6	4.4	4.0	1.7	1.4
Total Taxable Sales	7.2	4.2	3.2	1.2	0.8

Taxable Sales Growth
San Francisco Bay Area

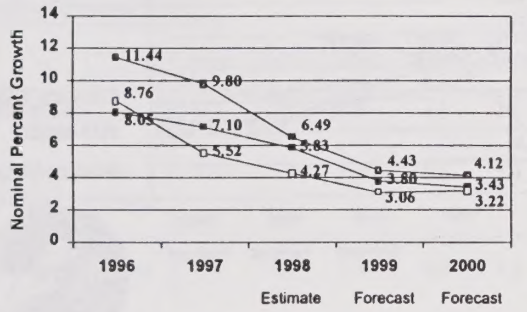


Source: California Board of Equalization, ABAG

Taxable Sales Growth
East Bay & South Bay



Taxable Sales Growth
West Bay

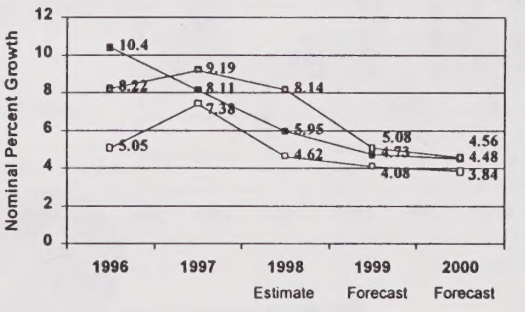


San Mateo
Marin
San Francisco

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

ABAG

Taxable Sales Growth
North Bay



Sonoma
Napa
Solano

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

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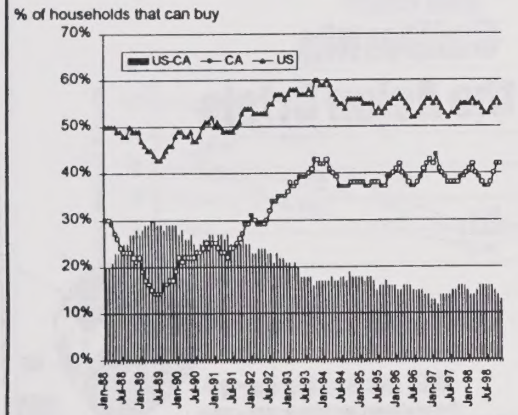
Where in the Cycle is the Housing Market

G.U. Krueger
Deputy Chief Economist
California Association of Realtors

California and the Asian Crisis

Housing Affordability Index

California vs. U.S.



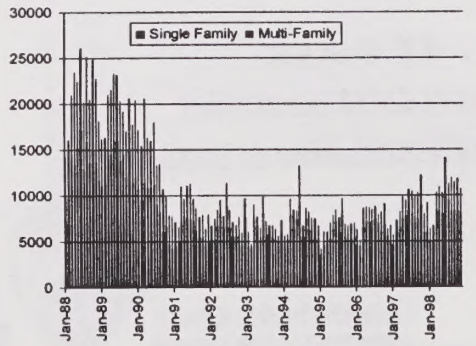
- **Affordability has improved California's competitiveness**
  - *Now: 42%*
  - *Summer 1989: 14%*
  - *Note smaller gap with U.S.*

63

SOURCE: California Association of REALTORS®

New Housing Permits

California

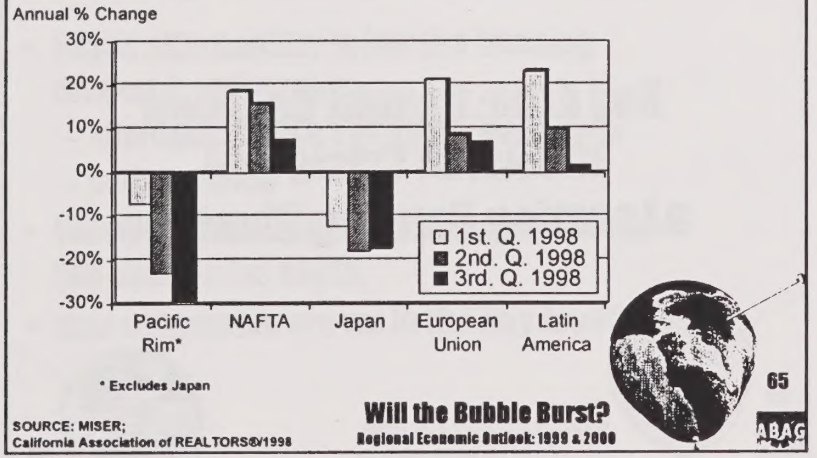


- **Housing permits up, but still low**
  - *Essentially flat since 1992*
  - *Up 12.6% in first eleven months of 1998*
  - *Unmet housing demand could spur home prices*

64

SOURCE: Construction Industry Research Board

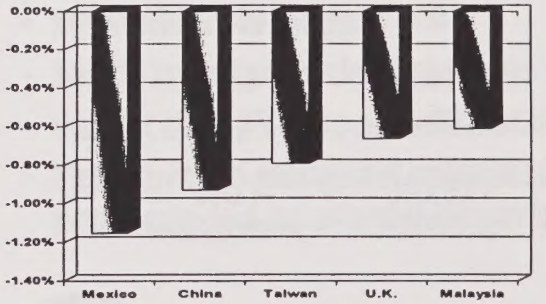
California Export Growth to Major Regions



SOURCE: MISER;
California Association of REALTORS®/1998

Why California Exports Got Worse

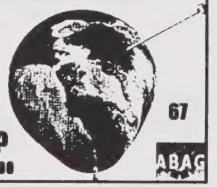
Difference in the Growth Contribution Between the Second and Third Quarter '98



SOURCE: MISER;
California Association of REALTORS®/1998

1999 CA Housing Market Forecast

	1998	1999
Resales	+10.0%	-8.0%
Median Price	$205,140	$213,350
Condos	+25.0%	-4.0%
Median Price	$156,020	$163,820
Residential Permits	129,000	150,000



Bay Area: Caught Between the Asian Crisis and a Looming Housing Shortage

Cycle Story in a Nutshell I

- When affordability is low the housing market is vulnerable
  - Affordability crisis can trigger down cycle
  - See late 1980s
- When it coincides with an economic crisis, the cycle turns south.
- How vulnerable are we in the Bay Area?

Cycle Story in a Nutshell II

- Affordability is eroding
- And Asian crisis is slowing things down
- But not enough to cause recession
- Therefore: no malignant coincidence of an economic and an affordability crisis

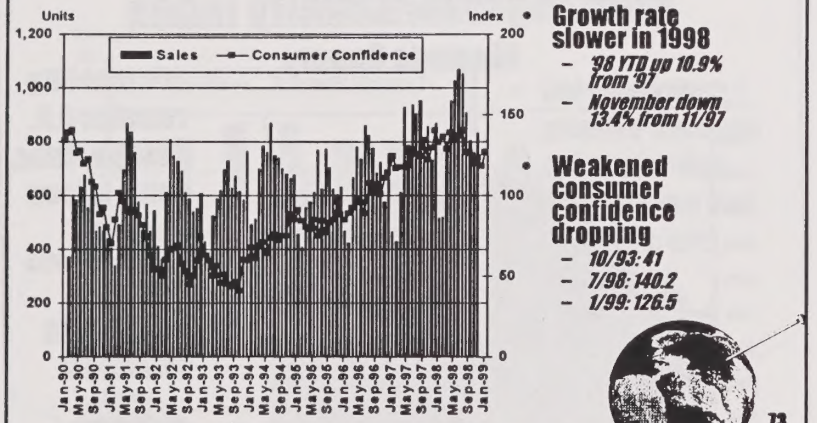
Cycle Story in a Nutshell III

- Slowing economy is going to let off steam in housing
- Will give us breathing room to deal with housing shortage issue looming before us
- Has added social significance: Where do we house the new populations?
- The young techno-professionals
- And the new ethnic groups

Alameda County

Housing Profile

Sales of Detached Homes and Pacific West Consumer Confidence Alameda County



- **Growth rate slower in 1998**
  - *'98 YTD up 10.9% from '97*
  - *November down 13.4% from 11/97*
- **Weakened consumer confidence dropping**
  - *10/93: 41*
  - *7/98: 140.2*
  - *1/99: 126.5*

73

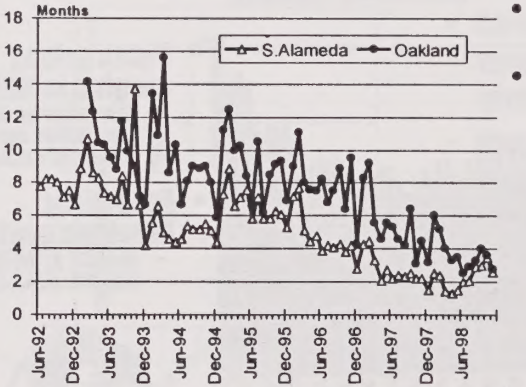
SOURCE: California Association of REALTORS®; The Conference Board

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

ABAG

Unsold Inventory Index
Southern Alameda County & Oakland



- **Inventory contraction**
- **Emerging shortage fueling home prices increases**

74

SOURCE: California Association of REALTORS®

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

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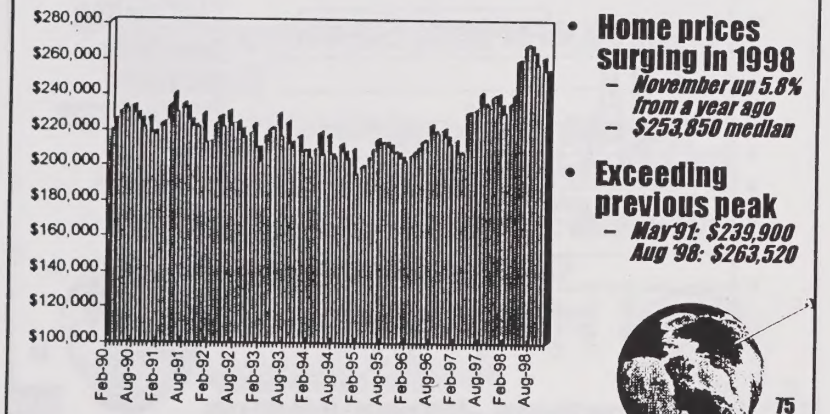
Median Home Price

Alameda County



- **Home prices surging in 1998**
  - *November up 5.8% from a year ago*
  - *$253,850 median*
- **Exceeding previous peak**
  - *May'91: $239,900*
  Aug '98: $263,520

75

Will the Bubble Burst?

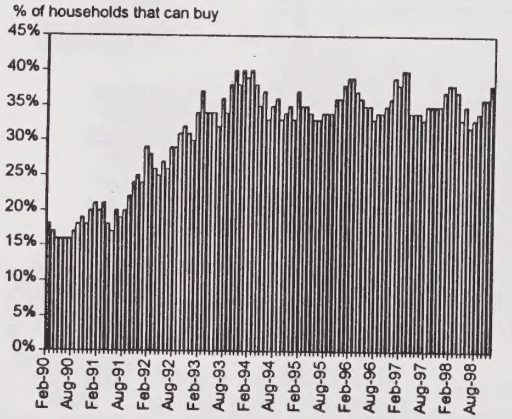
Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Housing Affordability Index

Alameda County



- **Affordability remains O.K. despite rising home prices**
  - *Now: 38%*
  - *Summer 1990: 16%*
- **But eroding somewhat**

76

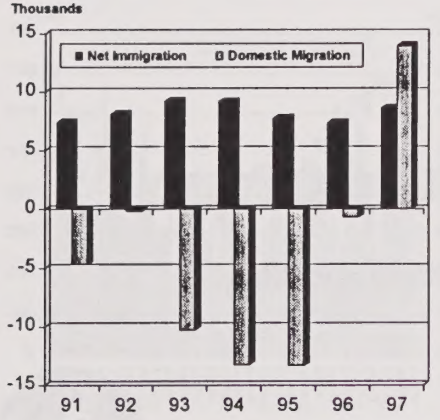
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Net Immigration vs. Domestic Migration
Alameda County

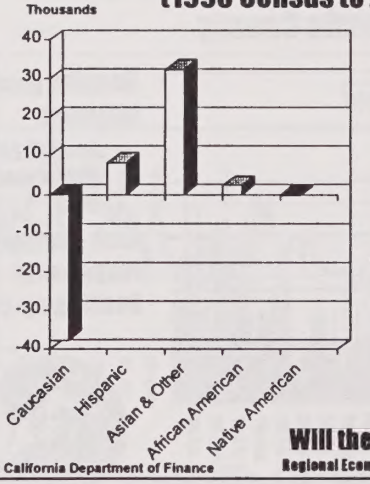


- Net migration positive because of both foreign immigration and domestic net inflows

77

SOURCE: California Department of Finance

Net Immigration by Ethnic Group
Alameda County
(1990 Census to July 1995)



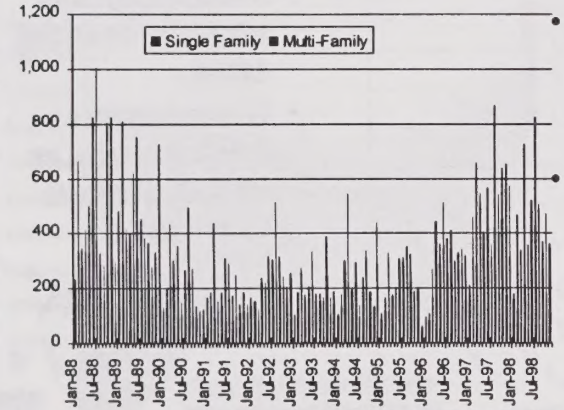
- Asian immigrants emerging as strong group
- Strong impact on housing market as immigrants move up economic ladder

78

SOURCE: California Department of Finance

New Housing Permits

Alameda County



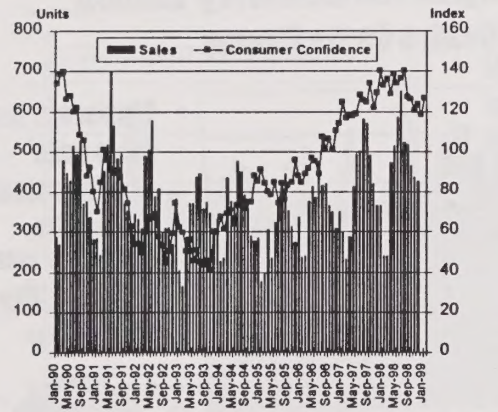
- **Housing permits stagnant**
  - ***Down 13.2% in last eleven months of 1998***
- **Lack of supply response to housing up-cycle**

SOURCE: Construction Industry Research Board

Contra Costa County

Housing Profile

Sales of Detached Homes and Pacific West Consumer Confidence
Contra Costa County



- **Housing recovery moderate**
  - *'98 YTD up 8.9% from '97*
  - *November up 16.4% from 11/97*
- **Consumer confidence dropping:**
  - *10/93: 41*
  - *7/98: 140.2*
  - *1/99: 126.5*

81

SOURCE: California Association of REALTORS®; The Conference Board

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

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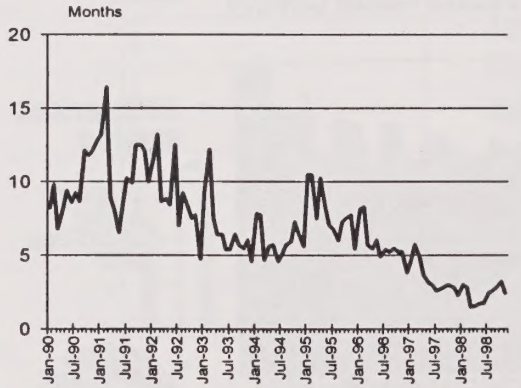
Unsold Inventory Index
Contra Costa County



- **Sharp inventory contraction in 1998**
- **Constraining transactions**

82

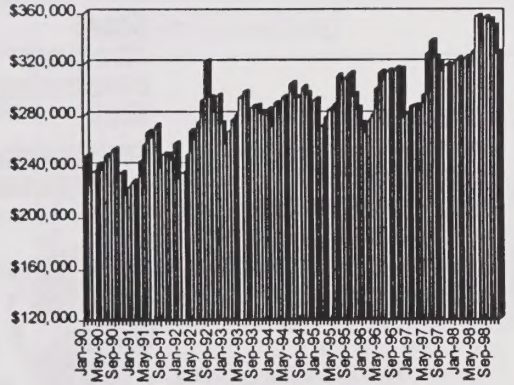
SOURCE: California Association of REALTORS®

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

ABAG

Median Home Price

Contra Costa County



- **Home prices surging**
  - *$325,570 median*
  - *up 3.5% from 11/97*

83

Will the Bubble Burst?

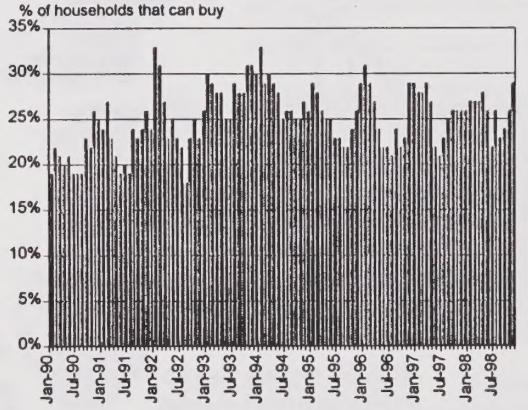
Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Housing Affordability Index

Contra Costa County



- **Moderate long term gain eroding slowly**
  - *Now: 29%*
  - *Summer 1992:18%*
- **Affordability rather low**

84

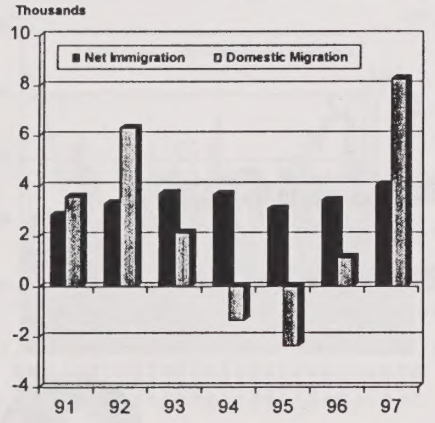
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

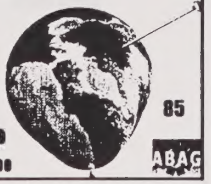
SOURCE: California Association of REALTORS®

ABAG

Net Immigration vs. Domestic Migration
Contra Costa County



- Net domestic migration up sharply
- Will drive up home prices



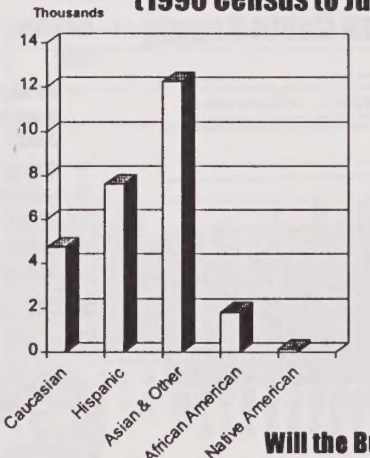
Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

85

SOURCE: California Department of Finance

ABAG

Net Immigration by Ethnic Group
Contra Costa County
(1990 Census to July 1995)



- Asian population biggest gain
- But also Hispanic
- Housing market strong as immigrants move up economic ladder

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

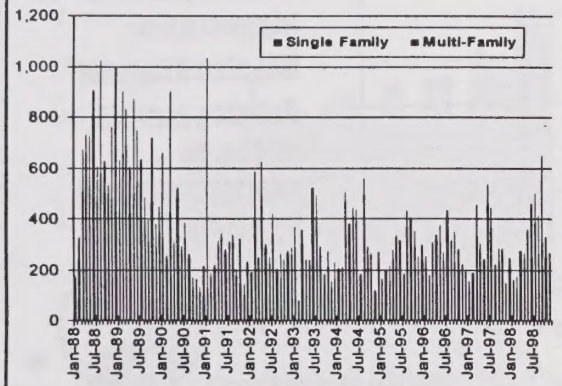
86

SOURCE: California Department of Finance

ABAG

New Housing Permits

Contra Costa County



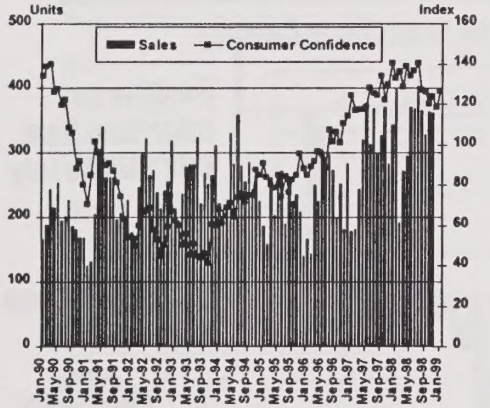
- Housing permits low
  - *Up 18.3% in first eleven months of 1998*
  - *Growth controls curbing construction*
  - *Housing crisis coming?*
- Housing crisis looming

SOURCE: Construction Industry Research Board

San Francisco County

Housing Profile

Sales of Detached Homes and Pacific West Consumer Confidence San Francisco County



- **Strong housing recovery in 1998**
  - *98 YTD up 13.9% from 97*
  - *November up 27.1% from a year ago*
- **Consumer confidence - strong but slowing**
  - *10/93: 41*
  - *7/98: 140.2*
  - *1/99: 126.5*

89

SOURCE: California Association of REALTORS®; The Conference Board

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

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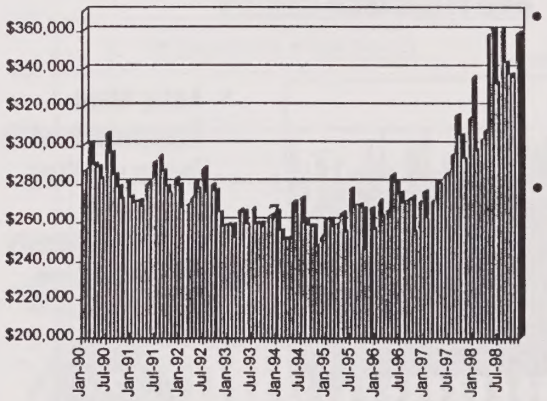
Median Home Price

San Francisco County



- **Home prices surging**
  - *Up14.2% from a year ago*
  - *$358,890 median*
- **Low inventory fuels multiple offers**

90

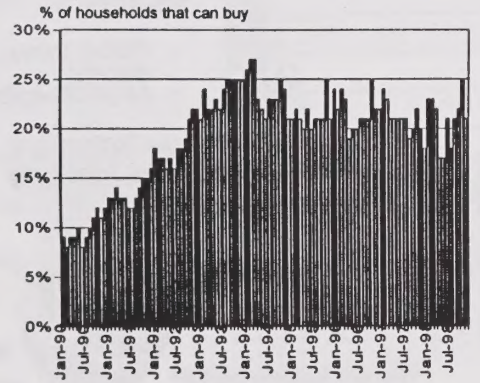
SOURCE: California Association of REALTORS®

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

ABAG

Housing Affordability Index
San Francisco County



- **Long term improvement in index eroding**
  - *Now: 21%*
  - *Summer 1990: 8%*
  - *Very exclusive housing market*

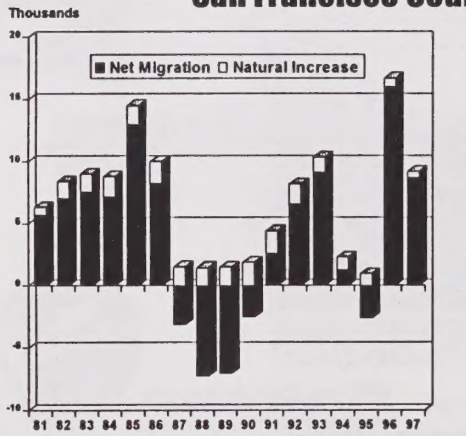
91

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Sources of Population Growth
San Francisco County



- **Positive net migration from July 1995 to July 1997**
- **Natural increase is constant**

92

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

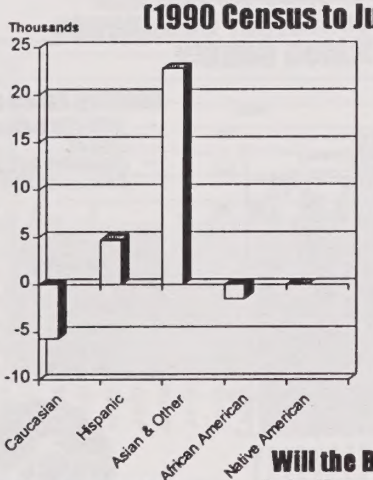
SOURCE: California Department of Finance

ABAG

Net Immigration by Ethnic Group

San Francisco County

(1990 Census to July 1995)

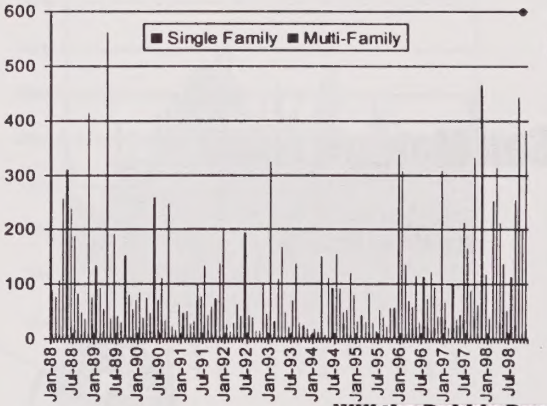


- **Asian immigrants dominate inflow**

SOURCE: California Department of Finance

New Housing Permits

San Francisco County



Housing permits growing

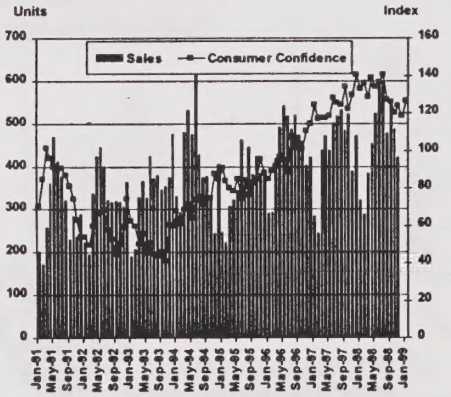
- ***Driven by multi-family***
- ***Responding finally to housing shortage and price appreciation?***
- ***Up 50.3% in first eleven months of 1998***

SOURCE: Construction Industry Research Board

San Mateo County

Housing Profile

Sales of Detached Homes and Pacific West Consumer Confidence San Mateo County

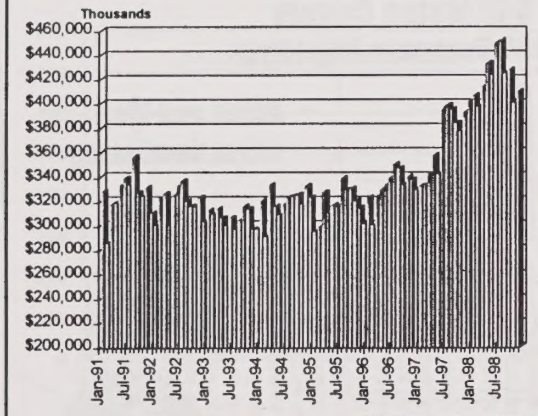


- **Housing sales up**
  - *1998 YTD: 5.7% up from 97*
  - *November up 8.2% from a year ago*
- **Consumer confidence - strong but dropping**
  - *10/93: 41*
  - *7/98: 140.2*
  - *1/99: 126.5*

SOURCE: California Association of REALTORS®; The Conference Board

Median Home Price

San Mateo County



- **Home prices up sharply in 1998**
  - *November: $410,000*
  - *Up 4.1% from a year ago*
  - *Silicon Valley "pause" spilling over to San Mateo*
- **Low inventory fuels multiple offers**

SOURCE: California Association of REALTORS®

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

97

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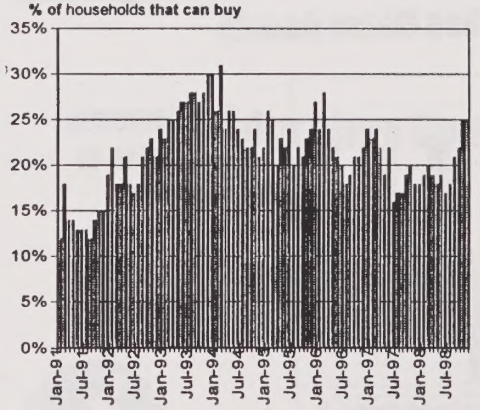
Housing Affordability Index

San Mateo County



- **Long term improvement in affordability eroding!**
  - *Now: 25%*
  - *February 1994: 31%*
- **Affordability problem on the horizon?**

SOURCE: California Association of REALTORS®

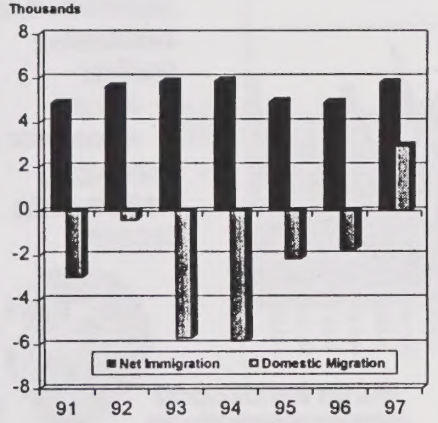
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

98

ABAG

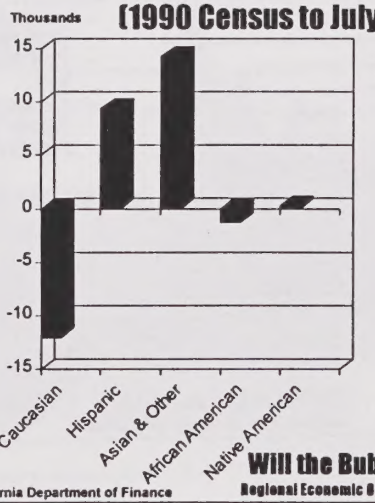
Net Immigration vs. Domestic Migration
San Mateo County



- Net domestic migration is positive

SOURCE: California Department of Finance

Net Immigration by Ethnic Group
San Mateo County
(1990 Census to July 1995)

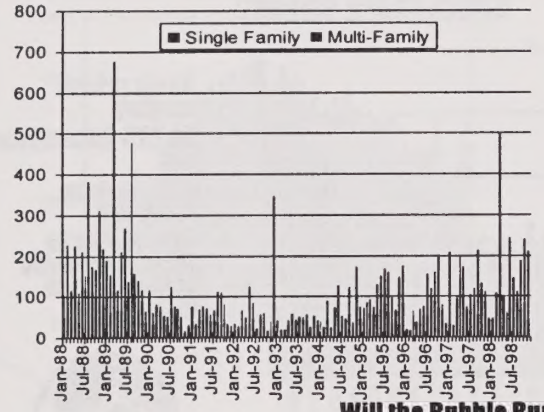


- Asian and Hispanic influx dominates

SOURCE: California Department of Finance

New Housing Permits

San Mateo County



- **Housing permits rising slowly**
  - *Large increase in March 98, driven by multi-family*
  - *Lack of housing could constrain local economic development*
  - *Up 34.2% in first eleven months of 1998*

SOURCE: Construction Industry Research Board

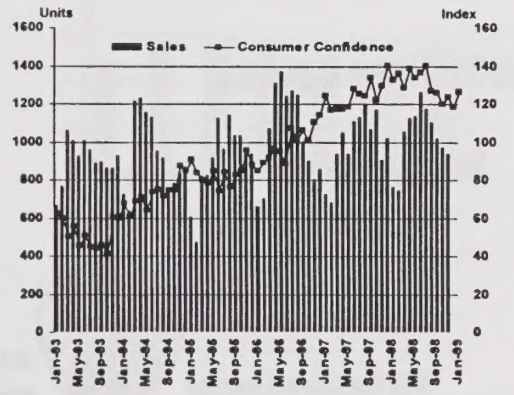
101

Santa Clara County

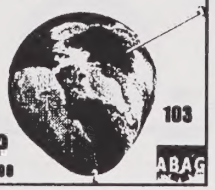
Housing Profile

102

Sales of Detached Homes and Pacific West Consumer Confidence Santa Clara County



- **Growth rate slower in 1998**
  - *1998 YTD sales 3.5 up from 97*
  - *November up 3.9% from 11/97*
- **Consumer confidence slowing**
  - *10/93: 41*
  - *7/98: 140.2*
  - *1/99: 126.5*



SOURCE: California Association of REALTORS®; The Conference Board

Will the Bubble Burst?

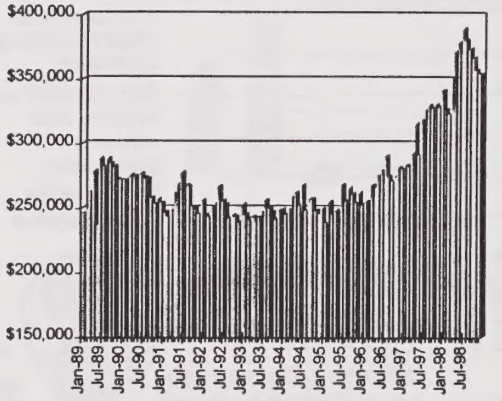
Regional Economic Outlook: 1999 & 2000

103

ABAG

Median Home Price

Santa Clara County



- **Home prices surging**
- **Up 7.7% from a year ago**
- **Median now: $354,500**
- **First county to exceed previous peak period in 1989**

SOURCE: California Association of REALTORS®

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

104

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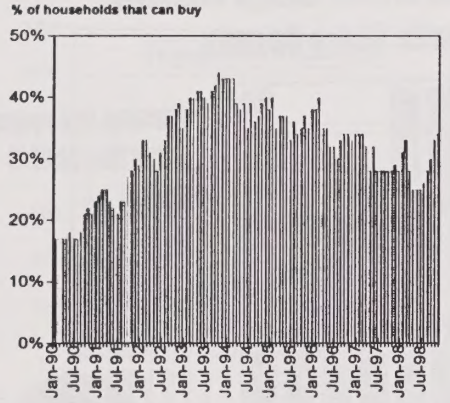
Housing Affordability Index

Santa Clara County



- **Long term improvement in index eroding!**
  - ***Now: 34%***
  - ***October 1993: 44%***
  - ***Lower mortgage rates can't offset price gains***

105

Will the Bubble Burst?

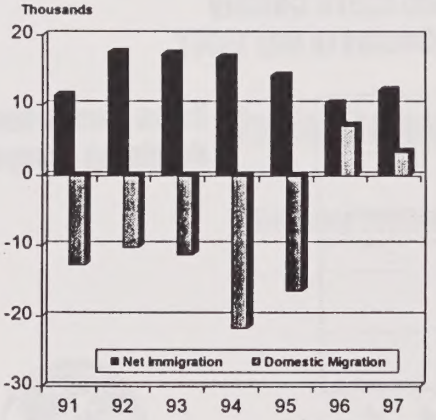
Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Net Immigration vs. Domestic Migration

Santa Clara County



- **Net domestic migration positive since 1996**
- **Will drive up home price appreciation**

106

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

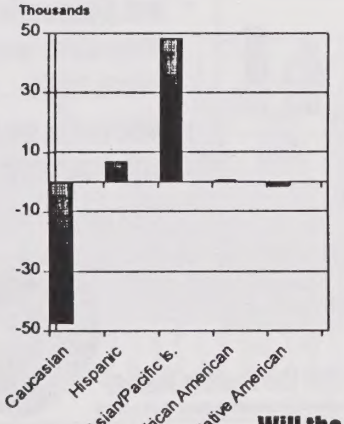
SOURCE: California Department of Finance

ABAG

Net Immigration by Ethnic Group

Santa Clara County

(1990 Census to July 1995)



- Asian immigrants dominant groups

107

Will the Bubble Burst?

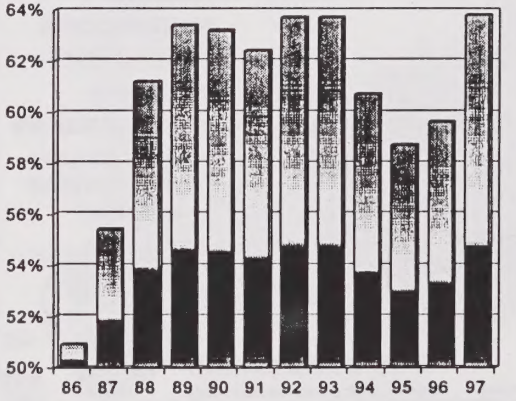
Regional Economic Outlook: 1999 & 2000

SOURCE: California Department of Finance

ABAG

Homeownership Rates

Santa Clara County



- Strong increase over the last 3 years

108

Will the Bubble Burst?

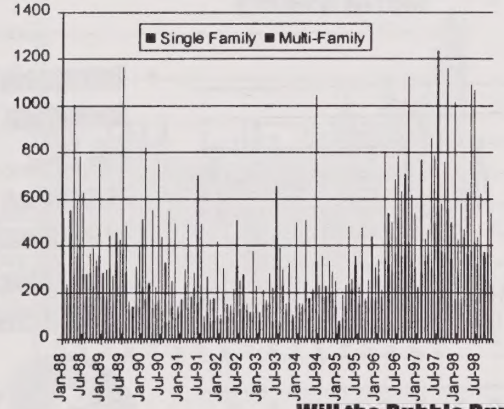
Regional Economic Outlook: 1999 & 2000

SOURCE: U.S. Bureau of Census

ABAG

New Housing Permits

Santa Clara County



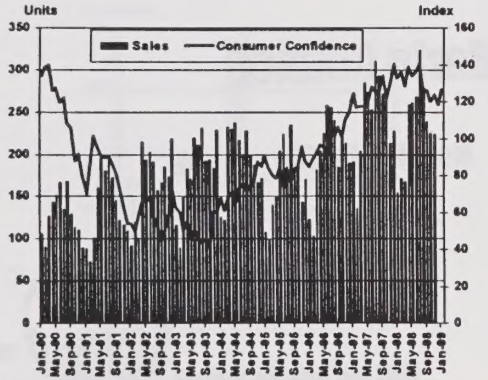
- Housing permits weak
- Down 11.0% in first eleven months of 1998
  - *Growth controls an issue*

SOURCE: Construction Industry Research Board

Marin County

Housing Profile

Sales of Detached Homes and Pacific West Consumer Confidence Marin County



- **Pause in resale activity?**
  - *'98 YTD down 5.0% from '97*
  - *November sales up 5.2% from a year ago*
- **Consumer confidence - strong but slowing:**
  - *10/93: 41*
  - *7/98: 140.2*
  - *1/99:126.5*

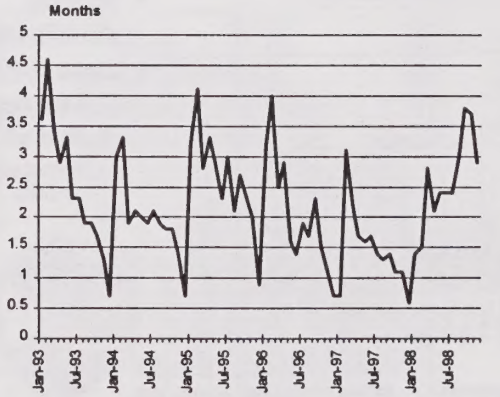
111

SOURCE: California Association of REALTORS®; The Conference Board

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

ABAG

Unsold Inventory Index Marin County



- **Extremely low inventory**
- **Positive impact on price trends**
- **But curbing sales activity**

112

SOURCE: California Association of REALTORS®

Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000

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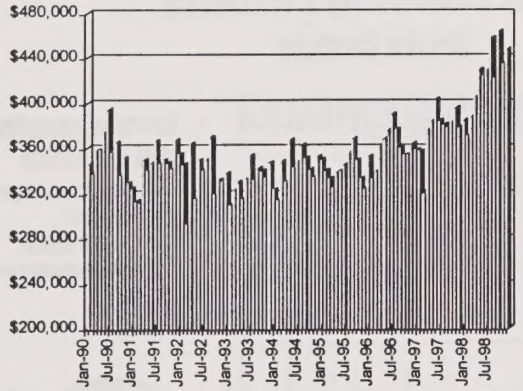
Median Home Price

Marin County



- **Home prices up sharply in '98**
  - *A year ago:$378,900*
  - *November: $447,440*
  - *Up 18.1% from last year*
- **Exceeds previous peak**

113

Will the Bubble Burst?

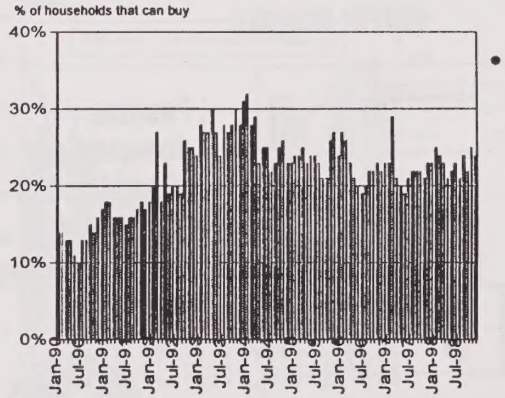
Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Housing Affordability Index

Marin County



- **Affordability eroding slowly**
  - *Now: 24%*
  - *Down from 32% in January 1994*
  - *Affordability one of the lowest in California*

114

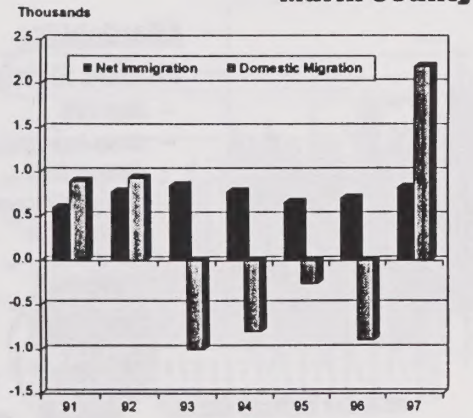
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

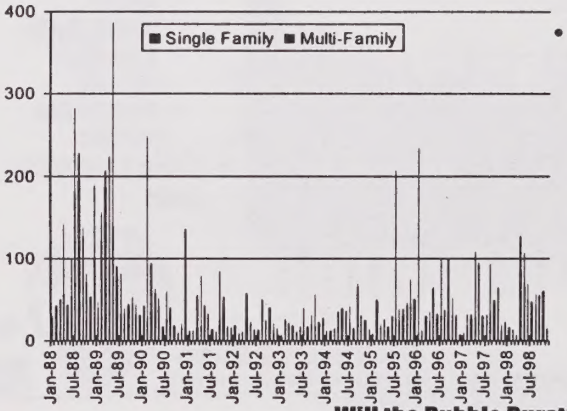
Net Immigration vs. Domestic Migration
Marin County



- Positive domestic net migration and immigration
- Driving up home prices

SOURCE: California Department of Finance

New Housing Permits
Marin County



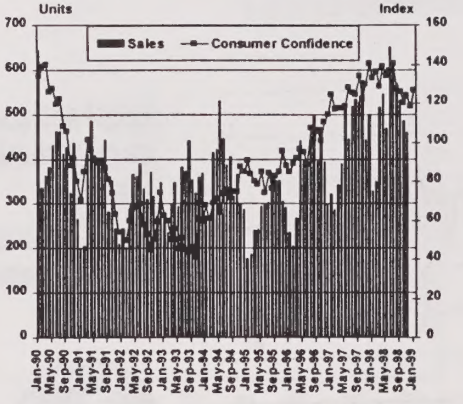
- Housing permits still miniscule
  - *Housing shortage looming?*
  - *Up 0.5% in first eleven months of 1998*

SOURCE: Construction Industry Research Board

Sonoma County

Housing Profile

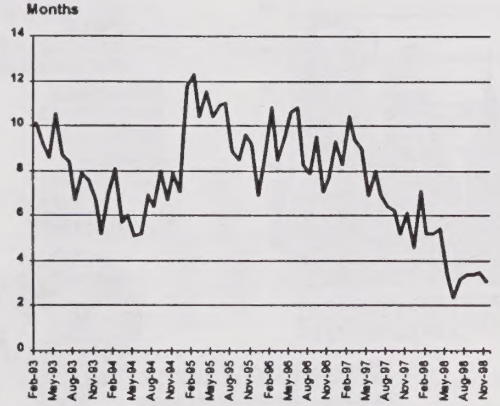
Sales of Detached Homes and Pacific West Consumer Confidence Sonoma County



- **Housing recovery in 1998**
  - *'98 YTD up 12.6% from '97*
  - *November up 3.6% from a year ago*
- **Consumer confidence - strong but slowing**
  - *10/93: 41*
  - *7/98: 140.2*
  - *1/99: 126.5*

SOURCE: California Association of REALTORS®; The Conference Board

Unsold Inventory Index
Sonoma County



- **Level of home supply coming down!**
- **Home prices will increase**

119

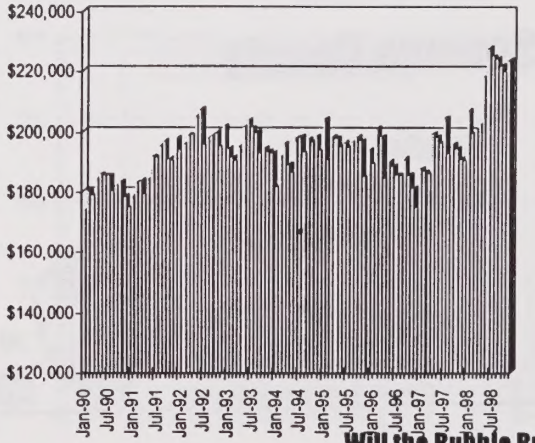
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Median Home Price
Sonoma County



- **Home prices strengthening**
  - ***November: $223,720***
  - ***A year ago: $190,820***
  - ***Up 17.2% from year ago***
  - ***Exceeds previous peak of: $207,350***

120

Will the Bubble Burst?

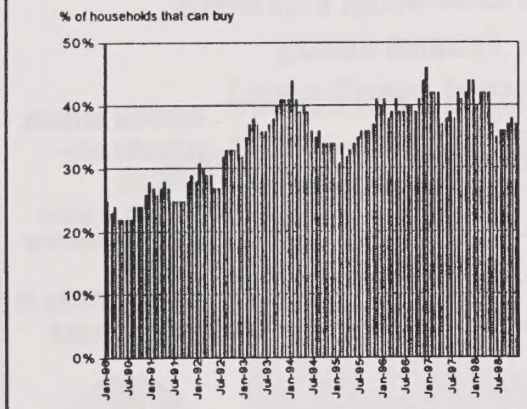
Regional Economic Outlook: 1999 & 2000

SOURCE: California Association of REALTORS®

ABAG

Housing Affordability Index

Sonoma County



- Long term improvement eroding
  - *Now: 37%*
  - *December 1997: 44%*
- Poised for more homes price appreciation

SOURCE: California Association of REALTORS®

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

121

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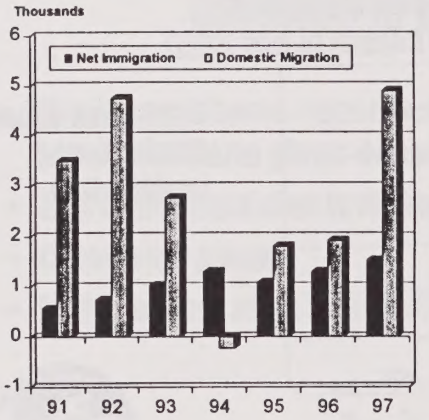
Net Immigration vs. Domestic Migration

Sonoma County



- Positive net domestic migration
- Positive foreign immigration
- Will drive up home prices

SOURCE: California Department of Finance

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

122

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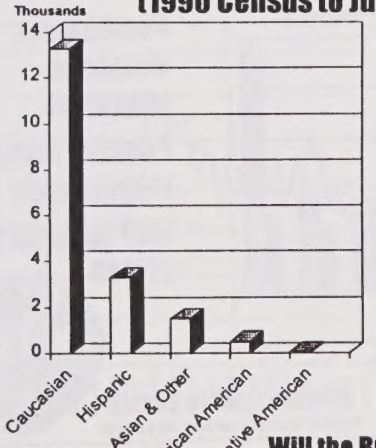
Net Immigration by Ethnic Group

Sonoma County

(1990 Census to July 1995)



- **Caucasian inflow dominates immigration**

SOURCE: California Department of Finance

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

123

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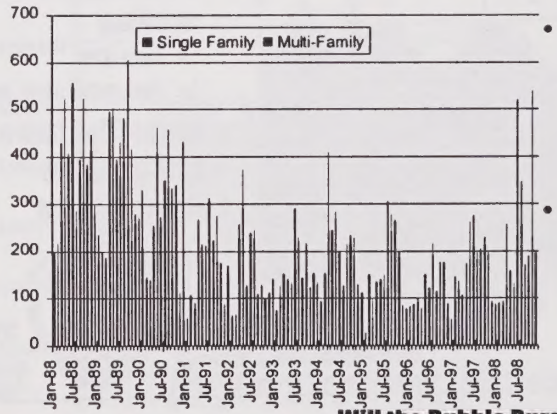
New Housing Permits

Sonoma County



- **Housing permits virtually non-existent**
  - ***Up 33.1% in first eleven months of 1998***
- **Not responding to rising demand**

SOURCE: Construction Industry Research Board

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

124

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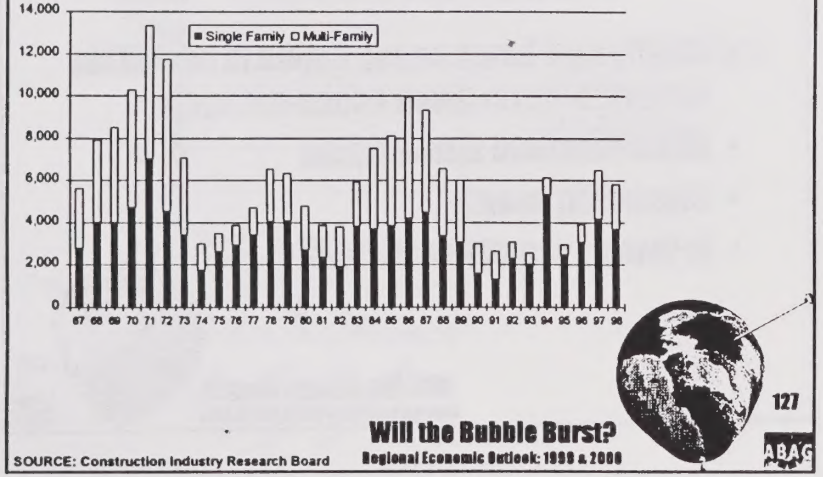
Long Term Issues: Are We Building Enough?

Historically Speaking Building is Low

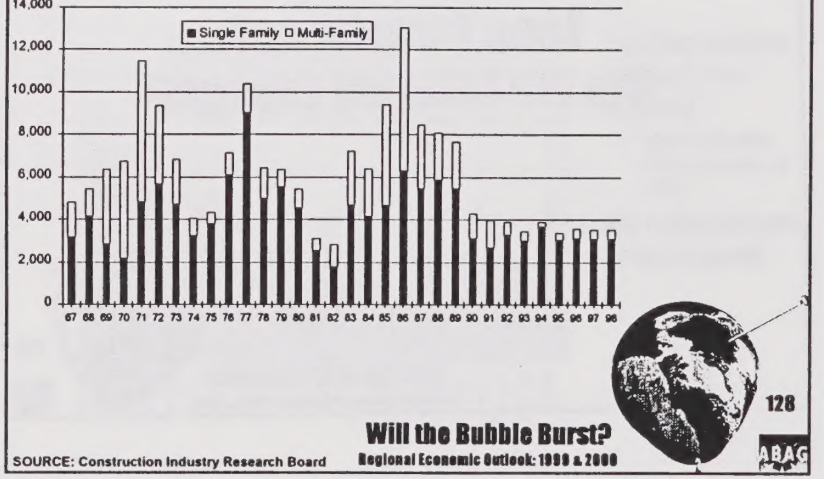
- Mostly new home construction is not within historical norm given economic cycle
- And household size is rising
- Cramming people
- Is there a creative solution?

New Housing Permits
Alameda County

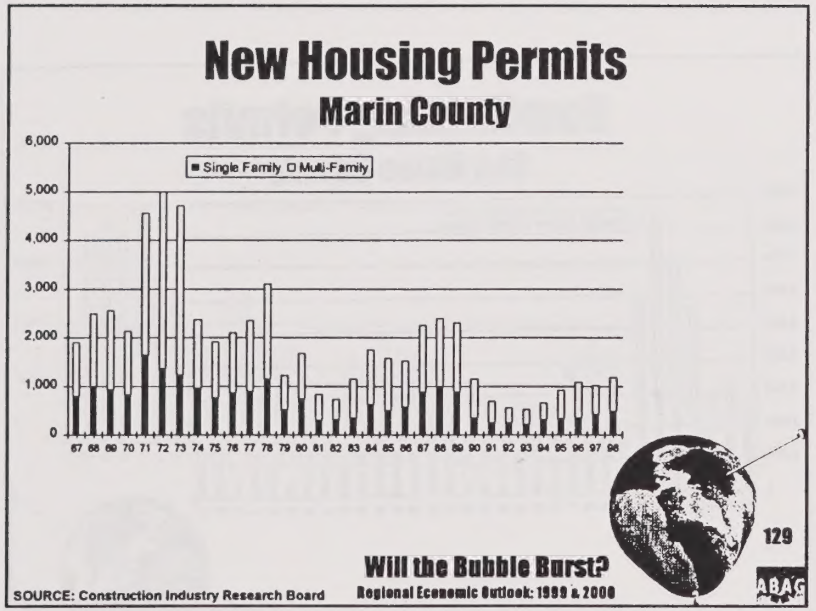


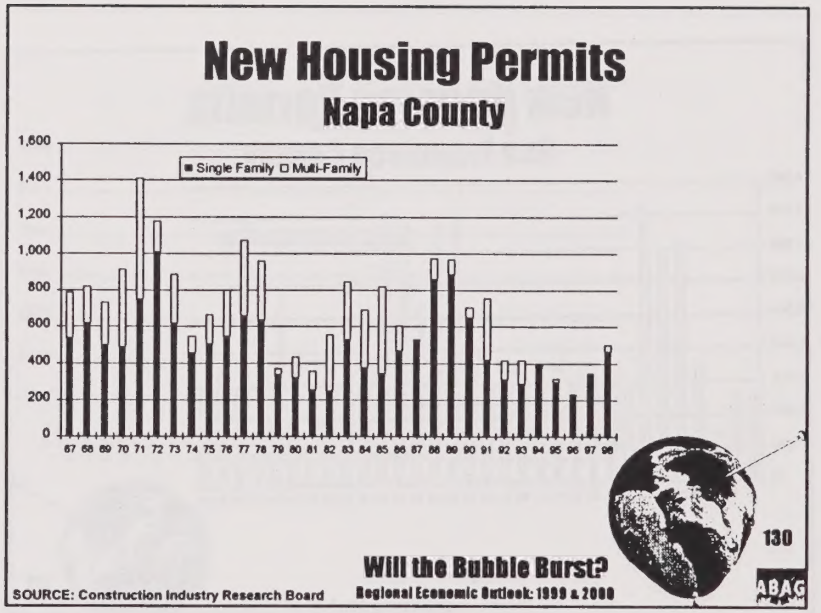
SOURCE: Construction Industry Research Board

New Housing Permits
Contra Costa County



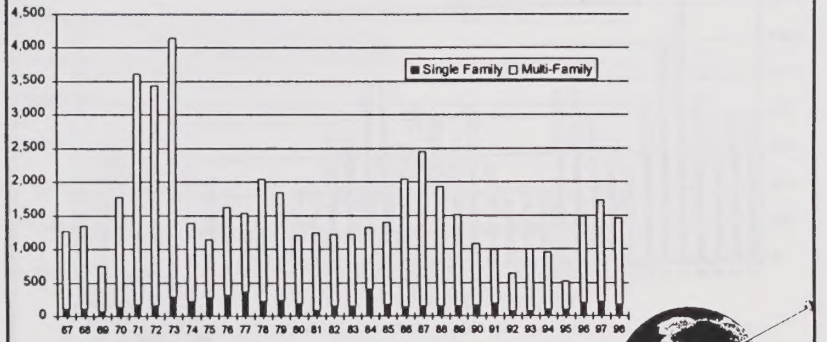
SOURCE: Construction Industry Research Board


New Housing Permits
Marin County
Single Family
Multi-Family
6,000
5,000
4,000
3,000
2,000
1,000
0
67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98
SOURCE: Construction Industry Research Board
Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000
129
ABAG


New Housing Permits
Napa County
Single Family
Multi-Family
1,600
1,400
1,200
1,000
800
600
400
200
0
67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98
SOURCE: Construction Industry Research Board
Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000
130
ABAG

New Housing Permits

San Francisco County



SOURCE: Construction Industry Research Board

Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

131

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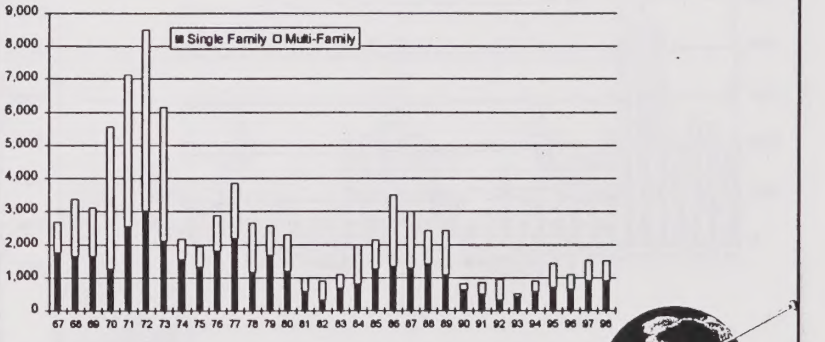
New Housing Permits

San Mateo County



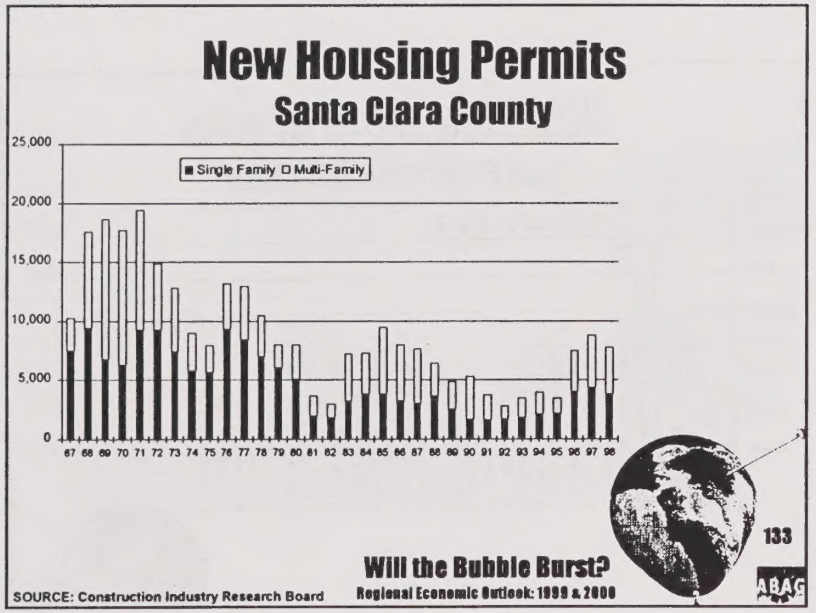
SOURCE: Construction Industry Research Board

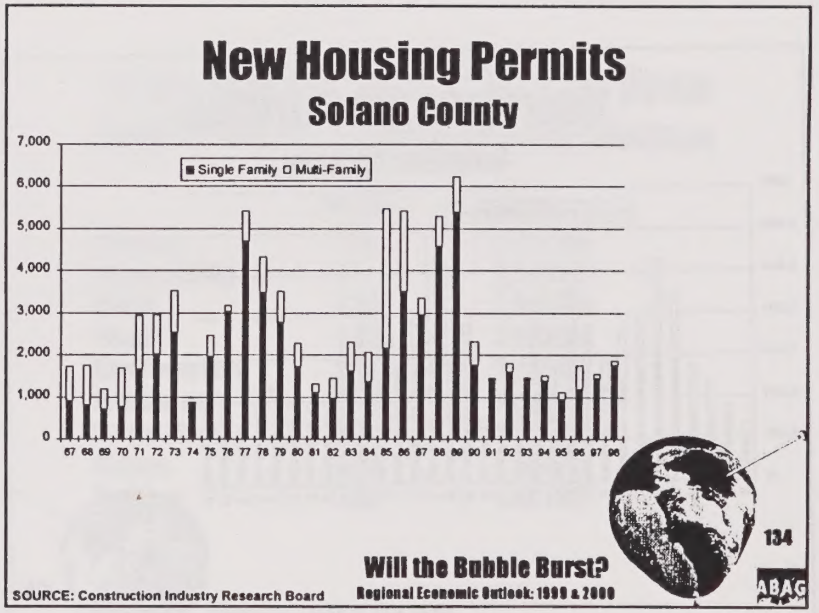
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

132

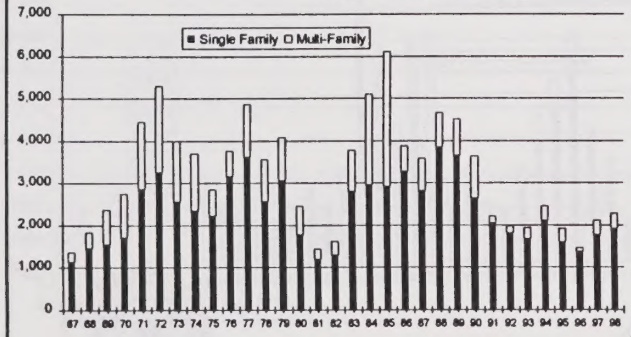
ABAG


New Housing Permits
Santa Clara County
Single Family
Multi-Family
25,000
20,000
15,000
10,000
5,000
0
67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98
133
Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000
SOURCE: Construction Industry Research Board
ABAG


New Housing Permits
Solano County
Single Family
Multi-Family
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98
134
Will the Bubble Burst?
Regional Economic Outlook: 1999 & 2000
SOURCE: Construction Industry Research Board
ABAG

New Housing Permits

Sonoma County



SOURCE: Construction Industry Research Board

135

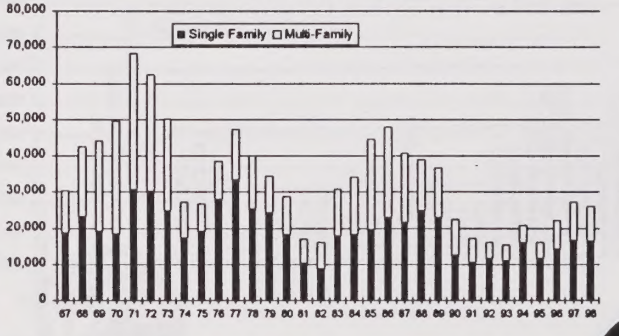
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

ABAG

New Housing Permits

San Francisco Bay Area



SOURCE: Construction Industry Research Board

136

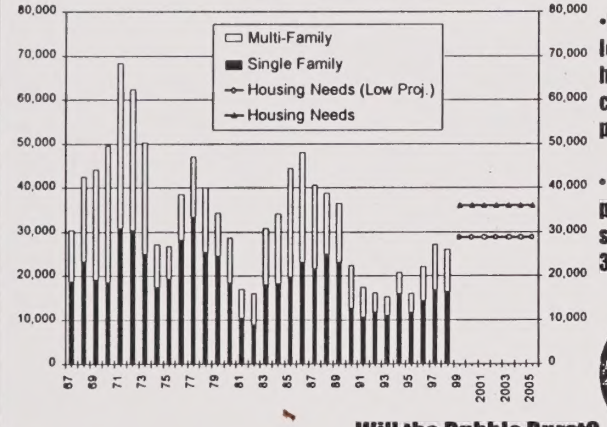
Will the Bubble Burst?

Regional Economic Outlook: 1999 & 2000

ABAG

New Housing Permits

San Francisco Bay Area



- If current production levels don't improve, housing shortage could be 10,000 units per year.
- A low housing need projection scenario still means a circa 3,000 unit shortage

SOURCES: CAR; Construction Industry Research Board; CCSCE

Household Size in the Bay Area

Another Sign of Looming Housing Shortage

	Recent	Lowest
Alameda	2.76	2.51 ('89)
Contra Costa	2.71	2.60 ('88)
Marin	2.43	2.31 ('89)
Napa	2.63	2.47 ('88)
San Francisco	2.47	2.12 ('79)
San Mateo	2.82	2.49 ('81)
Santa Clara	3.00	2.73 ('87)
Solano	2.95	2.78 ('87)
Sonoma	2.60	2.48 ('88)

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